



**DEPARTMENT OF  
FINANCE**  
OFFICE OF THE DIRECTOR

GRAY DAVIS, GOVERNOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ [WWW.DOF.CA.GOV](http://WWW.DOF.CA.GOV)

August 22, 2003

TO: Agency Secretaries  
Department Directors  
Constitutional Officers

When I met with departments and Cabinet Secretaries in July, I explained that our current financial situation is unprecedented, and that State departments and employees would bear a significant portion of the burden for bringing the budget back in balance. Since that time, the Legislature has adopted a budget that increased that burden by requiring that the Department of Finance (Finance) implement reductions of at least \$1.1 billion and 16,000 positions. These requirements are included in Control Section 4.10 of the 2003 Budget Act. As the first step toward compliance with the Legislature's direction in the Budget Act, all State departments were required to submit updated reduction plans to Finance by August 11, 2003.

Next week, to ensure the reductions required by the Legislature are achieved, I will notify the Legislature of the amounts to be included in an executive order to reduce departments' appropriations pursuant to Control Section 4.10. The initial reduction amounts may need to be adjusted later in the budget process. After each department's reduction plan is approved by Finance, any necessary adjustments to the reductions will be made at that time. As you consider these required adjustments, be aware that the Legislature severely restricted our ability to mitigate deficiencies in departments' budgets. The Budget Act now requires that any deficiencies be funded by reductions from other appropriations in the Budget Act, and allows reductions of up to 5 percent of any item to be redirected to fund those approved deficiencies. Since this requirement essentially means that cuts to other departments would be required to fund any approved deficiencies, it would obviously be inappropriate to approve any deficiencies for state operations that result from delay in implementing the reductions required pursuant to Control Section 4.10.

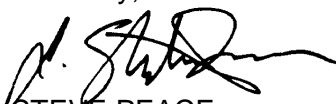
If your department's updated reduction plan has not been submitted to Finance, it must be submitted as soon as possible. I have directed Department of Finance managers to develop and implement reduction plans by October 1 for those departments that have not submitted a reduction plan.

Departments must immediately provide surplus notices to employees who have not already received a surplus notice and who are in classifications that may be affected by the updated reduction plan. It is critical that these notices be provided in order to minimize the delays resulting from the State's lay-off process. Any department that has not already issued all necessary surplus notices to facilitate its updated reduction plan should immediately contact the Department of Personnel Administration to initiate this process.

I know that implementation of these required reductions is not pleasant for any of us, and is difficult at best. Some of you may have the inclination to delay action in the hope that the Legislature will change its mind and restore the reduction. However, it is imperative for us all to realize that the longer we take to begin and complete this difficult task, the deeper the impact will ultimately be on our employees.

If you have any questions please call Tom Dithridge, Program Budget Manager for Administration and Employee Compensation, at (916) 445-3274.

Sincerely,

  
STEVE PEACE  
Director